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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 8, 2012

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Agriculture and Land Stewardship for the year ended June 30, 2011.

The Department has the primary responsibility to encourage, promote and advance agriculture in this State.

Vaudt recommended the Department strengthen internal controls over receipts in certain Bureaus and implement procedures to comply with certain provisions of the Code of Iowa. The Department's responses to the recommendations are included in the report.

A copy of the report is available for review in the Iowa Department of Agriculture and Land Stewardship, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1260-0090-BR00.pdf>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF AGRICULTURE AND LAND
STEWARDSHIP**

JUNE 30, 2011

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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August 3, 2012

To the Honorable Bill Northey,
Secretary of Agriculture:

The Iowa Department of Agriculture and Land Stewardship is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2011.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations which pertain to the Department's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Agriculture and Land Stewardship's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Agriculture and Land Stewardship, citizens of the State of Iowa and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 10 and they are available to discuss these matters with you.

A handwritten signature in black ink, reading "David A. Vaudt".

DAVID A. VAUDT, CPA
Auditor of State

A handwritten signature in black ink, reading "Warren G. Jenkins".

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

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Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to the State's Report on Internal Control:

No matters were noted.

Other Findings Related to Internal Control:

- (1) Segregation of Duties – To safeguard assets, duties should be segregated to prevent an individual employee from handling duties which are incompatible. This segregation of duties helps to prevent losses from employee error or dishonesty. Also, an initial listing of receipts should be prepared by the mail opener and compared to the deposit by an independent person. In addition, a reconciliation of receipts deposited to bureau records should be performed to determine the appropriate fees were received and deposited. Additionally, several Bureaus utilize databases to record and track receipts. However, database access for certain Bureaus is not controlled and the duties of recording, depositing and reviewing deposits are not segregated.

In the Dairy Bureau, the Weights and Measures Bureau, the Commercial Feed and Fertilizer Bureau and the Pesticide Bureau, one person is responsible for opening mail, recording receipts in the Bureau's database, preparing the deposit and taking the deposit to accounting. In addition, these Bureaus and the Animal Industry Bureau do not prepare an initial listing of receipts and do not perform a reconciliation to determine if the appropriate fees were collected.

Databases should have controls to ensure proper collection and mitigate the risk of human error. The Dairy Bureau and the Weights and Measures Bureau maintain databases without adequate controls to ensure accuracy. Any user can change or delete a record at any time in the Weights and Measures database.

Recommendation – The Department should review procedures in the Bureaus to ensure duties are segregated to the extent possible. An initial listing of receipts should be prepared and compared to the deposit by an independent person. In addition, the Bureaus should consider implementing a procedure to ensure the correct fee is collected. Access to Bureaus' databases should be limited to certain individuals and there should be a review of data input to the databases to ensure accuracy.

Response – Funding limitations constrict full segregation of duties. However, the Department has made changes to some of the departmental processes which will help further segregate some of the duties discussed in this comment. The incoming mail is now being opened by the Department receptionist. Monthly summaries of fees collected are currently generated by the Bureaus and submitted to accounting, based on daily validation reports from accounting and Kelly Registration Systems (KRS) ACH transactions.

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The Department will review segregation of duties within the various Bureaus as it pertains to fee collection and handling. The Department will review the processing of fees in several Bureaus to determine if there may be more effective or efficient methods to process these fees. The Department may consider cross-training among Bureaus to allow for a second person to be involved in the fee collection, handling and deposit process.

In addition, during fiscal year 2012, the Department implemented a new desktop deposit system. This new deposit system will allow for deposits to be completed in an overnight process rather than a weekly deposit of fees. This deposit system will close the loop between the program staff and accounting staff. When fee batches are sent to accounting, a copy of the I/3 cash receipt will be returned to the individual Bureaus with a copy of its batch spreadsheet. This will allow for better reconciliation between the Bureaus and accounting. Additionally, training will be provided to assist Bureaus in analyzing its deposit summary information to ensure proper amounts are being collected.

Segregation of duties will continue to be reviewed to determine if any further segregation can be accomplished for the duties discussed.

The Department has several outdated licensing databases and has been exploring new licensing software, but has found it cost prohibitive, with an estimated cost in excess of \$2 million, and has been unable to identify a funding source to implement a new system. The Department will review the security functions of current databases to determine if it is cost effective to add additional security features.

The Department did purchase new inspection software called WinWam, which was specifically designed for Weights & Measures and is used nationwide in more than half of all states. The inspection software was implemented during the spring and summer of 2011.

Conclusion – Response accepted.

- (2) Timely Deposit of Receipts – Proper internal control procedures require receipts be deposited in a timely manner. Checks should not be held longer than ten business days.

In the Commercial Feed and Fertilizer Bureau, the Pesticide Bureau and the Weights and Measures Bureau, receipts are regularly held for more than ten business days before being deposited.

Recommendation – The Department should advise the Bureaus to remit checks to accounting soon after receipt so checks can be deposited in a timely manner.

Response – As discussed in finding 1, the Department has implemented a new deposit system in fiscal year 2012 which shortens the amount of time a check is held within the Department before it is deposited.

Conclusion – Response accepted.

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- (3) Financial Reporting – The Weights and Measures Bureau collects fees for gas pump registrations each year.

In fiscal year 2011, approximately \$48,000 of gas pump registration fees were collected in June 2011, were not sent to the Accounting Bureau in a timely manner and were not identified as late deposits. These receipts were subsequently recorded as fiscal year 2012 receipts by the Accounting Bureau.

Recommendation – The Department should closely monitor fee receipts for proper fiscal year coding.

Response – Bureaus have been reminded of the need to submit receipts in a timely manner. In addition, the utilization of temporary staffing has helped to alleviate delays during periods of heavier workloads.

Conclusion – Response accepted.

- (4) Written Policies and Quality Control – The Bureau of Weights and Measures is responsible for its own receipts and billings. As noted in the review report issued March 23, 2011, the Bureau has no formal written procedures for the collection, posting and depositing of receipts. Additionally, there is no documentation for quality control reviews performed for inspections of weighing and measuring devices.

Recommendation – The Bureau should develop written policies and procedures to address the Department's receipt process and document quality control reviews.

Response – Each of the items has already been covered in the report issued on March 23, 2011. That report was issued three months prior to the end of this reporting period, so all of the Department's proposed changes designed to rectify those issues had not yet been implemented at the conclusion of this audit period (June 30, 2011).

Those changes are set forth below:

Written Policies: The Department will review segregation of duties within the various bureaus as it pertains to fee collection and handling. The Department will review the processing of fees in several bureaus to determine if there may be more effective or efficient methods to process these fees. The Department may consider cross-training among Bureaus to allow for a second person to be involved in the fee collection, handling, and deposit process. Policy changes will ensure reconciliations are completed with accounting. Inspection staff who collect fees will carry receipt books.

Documentation for Quality Control Reviews: The Technical Coordinator will do unannounced spot checks as well as scheduled observation to ensure the quality control of the inspections. The Bureau will develop a checklist for the Technical Coordinator to utilize when traveling and observing the inspections performed by the inspectors. The check list will be signed by the inspector and the technical coordinator.

Conclusion – Response accepted.

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- (5) GAAP Package – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to DAS-SAE on a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The Department overstated unearned revenue by \$100,500 for the year ended June 30, 2011.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – The Department believed it properly reported the \$100,500 in federal revenues as unearned revenues in accordance with the written definition provided in the GAAP package. Upon further explanation from the Auditor's Office, the Department understands the Auditor's position regarding the classification of the funds in question and will do its best to comply with the Auditor's position in future reports.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Code Compliance – The Department was not in compliance with the following provisions of the Code of Iowa during the year ended June 30, 2011:

- (a) Targeted Small Businesses – Chapter 73.16 requires departments with purchasing authority to issue electronic bid notices for distribution to the targeted small business website for solicitation of bids for procurement of equipment, supplies, and services.

Some Bureaus submit bid notices to the targeted small business website on a regular basis, but others do not. Compliance is not consistent for the Department as a whole.

- (b) Office of Renewable Fuels and Coproducts – Chapter 159A.6 created the Office of Renewable Fuels and Coproducts within the Department. The Office's chief purpose is to further the production and consumption of ethanol fuel in the state.

Due to lack of funding through fiscal year 2011, the program has not been operational.

- (c) Commercial Feed Publications – Chapter 198.15 requires the Department to publish, at least annually, information concerning the sales of commercial feeds, together with data on their production and use as the secretary considers advisable and a report of the results of the analyses of official samples of commercial feeds sold within the state as compared with the analyses guaranteed on the label.

These statistics are published on the Department's website, but were not up-to-date. The most recent statistics were from 2009.

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- (d) Antifreeze Inspections – Chapter 208A.4 states antifreeze should be inspected before it is sold, exposed for sale or held with the intent to sell. The Department tests antifreeze samples when submitted with the appropriate fee. However, the Department does not have a method to ensure all antifreeze for sale in the state has been tested.
- (e) Weights and Measures Annual Inspections and Inspection Fees – Chapters 214.3 and 214.11 require the Department to collect a license inspection fee for all commercial weighing and measuring devices in the state and perform annual inspections of all licensed motor fuel pumps to determine the accuracy of the pumps' measuring mechanisms. The Department charges fees for inspections, but fees are not collected for all commercial weighing and measuring devices because the Department does not maintain an accurate inventory of devices in the state. Also, the late fee is not consistently collected. In addition, the Department performs annual inspections for permanent licensed motor fuel pumps, but written evidence of which inspections were performed, when they were performed and the results is not maintained. The Department does not perform inspections of bulk fuel or LP trucks and motor fuel pumps located on trucks.
- (f) Bond of Scale Repairers – Chapter 215.12 requires the Department to keep bonds on file for any person, firm or corporation engaging in scale repair.

The Department maintains a file of bonds, but does not keep a current file or verify any person, firm or corporation engaging in scale repair is bonded.

- (g) Licensing Exam – Chapter 215.23 requires the Department to conduct a qualifying examination prior to issuing a commercial weighing and measuring servicer license.

The Department does not have or administer a qualifying examination.

- (h) Moisture Meter Inspections – Chapter 215A.2 requires all moisture meters be inspected annually.

The Department subcontracts the inspections to a third party, but does not verify the subcontractor has completed the inspections.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa or seek repeal of outdated Code sections.

Responses –

- a) The vast majority of the Department's procurements are from competitively bid State contracts, exempt from this procedure. However, the Department will continue to work to address the issues raised in this comment.
- b) Comment accepted.

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- c) The Department will work to improve compliance with this requirement.
- d) Work will be done to repeal language as deemed appropriate.
- e) Each of these items were addressed in the report issued March 23, 2011. The Department is doing the best it can, given the resource constraints it presently operates under.
- f) The Department will work to improve compliance with this requirement.
- g) The annual fee is currently only \$5 for the commercial weighing and measuring servicer license and, therefore, does not cover the cost to conduct an exam. The Department is currently working with the National Institute of Standards and Technology (NIST) to create a national exam.
- h) The Department will implement procedures to document performance under this contract.

Conclusion – Responses accepted.

- (2) Pesticide Bureau – On March 19, 2012, the Office of Auditor of State issued a report on a review of the Pesticide Bureau. The Bureau is responsible for licensing and certification of commercial applicators of pesticides, the certification of private applicators, the licensing of pesticide dealers and the registration of pesticide products sold or distributed in Iowa. The Bureau is also responsible for investigating alleged pesticide misuse and assessing and collecting civil penalties for those entities or individuals who violate the Pesticide Act found in Chapter 206 of the *Code of Iowa*. The report included findings and recommendations to the Bureau to ensure compliance with the requirements established by the *Code of Iowa* and improve controls over collection of fees, compiling of financial information and investigations.

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Staff:

Questions or requests for further assistance should be directed to:

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